

EXECUTIVE SUMMARY

THE NEED FOR CHANGE (SECTION 1)

Governments in Connecticut stand at a crossroads. For over a decade prior to the Great Recession, governments in the state benefited from a strong economy and stable revenue. But this stability depended on reliable, adequate state aid and the local property tax. The lack of diversity in revenue sources and uncertainty at the state level are now eroding the capacity of local governments to meet their obligations to the public.

Fundamental changes are needed to ensure that local governments can meet the future needs of the state. The purpose of this report is to outline and recommend a set of changes intended to both improve the performance of local governments and diversify their revenue sources.

THE CONTEXT (SECTION 2)

The state economy (2.1 and Appendix B)

- The state has yet to see much of a recovery from the Great Recession once inflation is factored in.
- Connecticut has a strong economic base and a well-compensated work force compared to the rest of the nation. But the lack of economic growth in recent years and earnings that are not increasing at the same rate as the rest of the nation mean that Connecticut cannot continue to rely on public spending and revenue policies that may have worked well in the past but do not match the current economic realities.

The state budget (2.2 and Appendix D)

- While the state economy grew by 17 percent between 2006 and 2015, state expenditures grew by 48.9 percent during the same period.
- State expenditures have exceeded state revenues every year since 2007, and the trend is likely to continue for several more years.
- The state has repeatedly demonstrated a willingness to divert resources intended for local governments to fill perceived needs at the state level.

THE NEED FOR REVENUE DIVERSIFICATION (SECTION 3 AND APPENDIX D)

- Taxes in Connecticut are high (3.1)
 - Whether considered on a per capita basis or as a percent of total state taxable incomes, state taxes and especially property taxes are very high compared to the rest of the nation.
 - The median property tax on owner-occupied housing in Connecticut as a percentage of median household income ranks the 3rd highest in the nation.
- Local governments in Connecticut are not large compared to other states (3.2)
 - State and local government employment as a percentage of private sector employment ranked 41st smallest compared to other states in 2015.
 - Local government employment in relation to private sector employment has followed national trends, but is well below the national average.

- Excluding K-12 education, local general government expenditures in Connecticut rank 50th out of all states and the District of Columbia as a percentage of the U.S. Treasury's measure of total taxable resources. Local education spending ranks 25th.
- Local government labor costs are relatively high compared to the rest of the nation, but are not out of step with labor markets conditions within the state. (3.3)
- Local governments are not allowed to use the full range of potential revenue sources available in other states. (3.4)
 - State and Federal payments to local governments are lower in Connecticut than in most other states.
 - Local general sales taxes, targeted sales taxes and franchise fees, and charges for services provided are all commonly available as revenue sources in other states, but are either not options for Connecticut local governments or are limited by state policies.
 - If revenue sources were diversified along the lines seen in other states, the need for property tax revenue in the state could be reduced by as much as 46 percent.
- While local governments are comparatively small, Connecticut property taxes are high because local governments lack other commonly available revenue sources.

COLLABORATION AND SERVICE SHARING (SECTION 4)

- Local governments and their Councils of Governments are actively pursuing options for increasing interlocal collaboration and service sharing, but these efforts are often hindered by outdated state laws and practices.

PROPOSALS FOR EXPANDING SHARED SERVICES AND COLLABORATION (SECTION 5)

- We recommend changes (5.1) in the Municipal Employees Relations Act (MERA) that will
 - Remove service sharing arrangements as a subject of collective bargaining
 - Prevent municipalities from bargaining away or losing through arbitration their right to enter into service sharing arrangements
 - When service sharing arrangements affect two or more collective bargaining units, the interests of all employees affected by the new arrangements will be represented by either a coalition of bargaining units or a new bargaining unit will be created to represent all affected employees.
- We recommend that state law be changed so that interlocal agreements or service sharing contracts involving two or more municipalities will override any relevant limitations in a participating municipality's charter or ordinances. (5.2)
- We recommend changes in state practices (5.3)
 - Restore funding for the Regional Performance Incentive Program and target that funding on initiatives identified as most effective in reducing costs, improving services or containing further cost increases.
 - Prevent the state from spending revenues identified in law as local government revenues
 - Modernize state IT resources and practices
 - Allow municipalities to establish service districts to perform and deliver specified municipal or educational services

- We recommend that ACIR be revitalized, and be charged with identifying services that are currently being subsidized by the state and are duplicated within the municipalities. (5.4)
- We recommend that the range of approved service delivery activities for COGs be expanded (5.5)
- We recommend that CCM, COST and the COGs jointly issue a blueprint for promoting and expanding interlocal cooperation, and jointly facilitate a regional municipal benchmarking program. (5.6)
- Other specific recommendations related to education include (5.7):
 - Consolidate and/or share services for selected non-instructional education expenditure categories across school districts.
 - Change state law to allow town governments to require consolidation and/or sharing of non-instructional services and resources between school districts and the municipality in which they are located.
 - The State should assume responsibility for both financing and delivering services for special education.
- We recommend that property assessment services be consolidated and/or shared in Connecticut regions for assessment offices servicing less than 15,000 parcels. (5.7)

COST CONTAINMENT (SECTION 6)

The cost containment section makes other recommendations to support and enhance local leaders' ability to contain increases in the cost of government. Among others, these recommendations include

- Urge OPM to complete the benchmarking project using the Uniform Chart of Accounts and standardized public financial reporting. (6.1)
- Create a labor relations task force to systematically review and recommend updates for Connecticut's municipal labor laws and dispute resolution processes. (6.2)
- Modify the state-mandated compulsory binding arbitration laws. (6.2)
- Amend the Municipal Employee Retirement System (MERS) to establish an additional retirement plan for new hires (6.2)
- Three other recommendations are made regarding health insurance premium taxes, the Uniform Relocation Assistance Act and unfunded (or under-funded) state mandates. (6.3)

PROPOSALS FOR REVENUE DIVERSIFICATION (SECTION 7)

Our recommended changes in local revenue sources are motivated by two objectives:

- To diversify the revenue sources available to local governments and create sufficient flexibility to allow for property tax relief for existing taxpayers, and
- To increase the fiscal security of local governments for the future.

As a consequence, the first recommendation is:

- Revenue generated as a result of implementing any or all of the recommendations contained herein should not be considered an increase in a municipality's ability to pay for purposes of collective bargaining.

Sales tax recommendations (7.1)

- To remain competitive with other states nationally and in the region, the total sales tax rate in Connecticut should remain at 7.0 percent or less.
- Reduce the state sales tax rate from the current 6.35 percent to no more than 6 percent.
- Broaden the sales tax base by repealing existing exemptions for selected consumption categories.
- Levy a statewide local sales tax at the rate of 1 percent
- With voter approval through consolidated referendum, allow local jurisdictions within a COG to impose a 0.25 percent local sales tax within their COG region to fund recreation, tourism, historic and arts infrastructure and activities of regional significance.
- With voter approval through consolidated referendum, allow local jurisdictions within a COG to impose a 1 percent local sales tax on food and beverages sold in restaurants, and on hotels within their COG region to fund recreation and tourism infrastructure and activities of regional significance.

Property tax recommendations (7.2)

- Prevent currently taxed property from being added to any of the existing tax exemption categories.
- Change state law to require tax exempt organizations to enter PILOT agreements when the entity derives rental or other significant income from a property.
- Increase PILOT reimbursements for state-owned property to 77 percent.
- Consistently and fully fund the state PILOT reimbursement program at the statutory rates.
- Require property owners of properties subject to state PILOT reimbursement to pay the difference between the state's statutory PILOT rate and the amount towns actually receive in state PILOT payments, up to 20 percent of the mill rate.
- Include quasi-state properties in the PILOT reimbursement program for state-owned properties.
- Require entities exempt from the property tax to pay for specific municipal services such as utilities and other non-education related services.

Fees for use of the public right-of-way (7.3)

- Change state law and permit municipalities to require on-going fees for the use of the public rights of way.

REPORT STRUCTURE

In the sections which follow, we more fully explain each of the recommendations summarized above. Appendices are also included that

- Provide a roadmap for increasing shared services (Appendix A)
- Describe in greater detail economic conditions in the state (Appendix B)
- Report estimated additional funding from the local sales tax by town (Appendix C)
- Provide additional detail and cross-state comparisons on the size and fiscal structure of state and local governments (Appendix D)